



MANAGEMENT CONTROLS: A BASIC DEPARTMENTAL RESPONSIBILITY

Management Controls: All activities designed to ensure that a department (1) accomplishes its objectives; (2) complies with City policies; (3) uses staff time and City property appropriately; and (4) records and accounts for transactions, revenues and expenditures properly.

Departments are responsible for setting up, following, and regularly reviewing their management controls. Management controls include both financial controls and non-financial controls.

Management Controls Are Basic Good Management Practices

Fraud, waste, and abuse. Newspapers love to write about it. Fraud, waste, and abuse not only represent missed opportunities for governments to use funds for desired purposes, they also undermine the citizens' trust in their government. Hence, public managers must be extra diligent in setting up and running public programs in a way that minimizes the occurrences of these misuses of public funds.

The basic management tool in both the public and private sector to address fraud, waste and abuse is management controls. Management controls span the whole gamut of management activities. Management controls assist organizations in deciding what should be done or what should be emphasized. They help organizations to allocate funds, monitor activities, and conduct reviews. Management controls provide the information organizations need to make mid-course corrections and evaluate organizational and individual performance. As such, management controls include not only internal accounting controls but also controls which focus on results.

Department Managers And Management Controls

Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

--American Institute of Certified Public Accountants

Officials entrusted with the resources are responsible for establishing and maintaining effective control.

--Government Auditing Standards

Department managers are responsible for the management controls in their departments. In addition, to setting up good management control systems, managers should periodically review their systems to ensure they are working. Table 1 provides a checklist of what their systems should include.

CHECKLIST FOR MANAGEMENT CONTROLS

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| ✓ | Department has written policies and procedures for significant transactions or events and they are updated and current. |
| ✓ | Budget justification data is consistent with other accounting data so that managers compare actual results with budgeted amounts. |
| ✓ | Employees promptly record and classify transactions. |
| ✓ | Only persons acting within the scope of their authority authorize and carry out significant actions. |
| ✓ | Supervisors have separated key duties and responsibilities in authorizing, processing, recording, and reviewing financial transactions. |
| ✓ | Employees receive appropriate supervision of their work. |
| ✓ | Supervisors assign accountability for custody and use of resources. |
| ✓ | Access to resources and records is limited to authorized individuals. |
| ✓ | Periodic inventories of assets are performed. |

Financial Controls Particularly Important

Departments need to pay extra attention to financial controls to ensure that assets are safeguarded and that financial records are reliable.

CHECKLIST OF IMPORTANT FINANCIAL CONTROLS:

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| ✓ | A system of authorization and approval. |
| ✓ | Separation of duties. |
| ✓ | Physical controls over assets |
| ✓ | Regular internal reviews. |

The most common control problem the Office of City Auditor finds is that departments have not organized their staff duties to ensure sufficient separation of duties—even when they have sufficient staff resources available to do so. Staff concerned with record keeping and accounting systems should not perform duties associated with operations, asset custody, physical controls over assets, and internal review and auditing.

Everyone Has Responsibility Regarding Management Controls in the City

Who is responsible for management controls? Many people would answer this question by indicating that it is the auditor's responsibility to implement management controls. This is a common **misconception**. Management is responsible for setting up and maintaining an adequate system of internal controls. The Office of City's Auditor's purpose is to independently evaluate the adequacy of existing control systems by analyzing and testing controls and then making recommendations to management on how to improve controls. Everyone has responsibility regarding the condition of management controls in the City. In addition, to the responsibility of department managers discussed above, others have the following responsibility:

Senior Management: Senior management support of management control is an integral part of the system's success. It is critical that management set the right "tone at the top" by

- clearly stating, in writing as well as discussions, management's expectations for integrity, honesty, and impartiality;
- prescribing behavior standards, including a code of conduct, and conflict of interest regulations and guidelines; and
- periodically determining whether appropriate controls are in place and are receiving employee compliance.

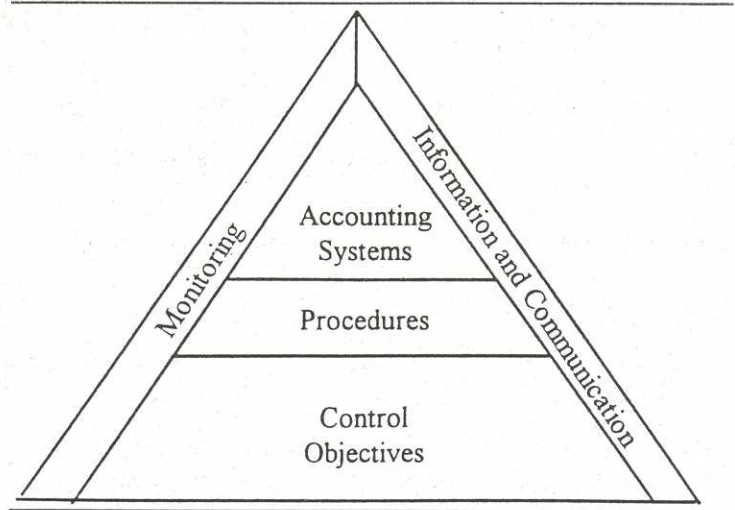
City Council: Management is accountable to the City Council, which provides policies, guidance and oversight. The City Council should be asking departments questions about their controls.

City Auditor: The City Auditor plays an important role in evaluating the effectiveness of control systems, and contributes to the ongoing effectiveness of management controls by making relevant recommendations.

Other Personnel: All staff should be aware of their responsibility to contribute to the City's management controls. Virtually all

employees produce information used in the management control system or take actions needed to effect control. All personnel should recognize their responsibility to communicate upward problems in operations, noncompliance with City policy or other policy violations, or illegal actions.

Main Components of Management Control



Control Objectives: This is the foundation of a management control system. Control objectives state both the positive effect management wants to attain and the adverse effects that management wants to avoid. Examples of control objectives include:

- employees record all financial information properly and in a timely manner;
- mistakes are identified;
- programs are accomplishing their goals; and
- service disruptions do not occur.

Control Procedures: These are the specific steps which management has established to provide reasonable assurance of achieving control objectives.

Accounting System: This includes management's methods for following up and checking on performance to ensure compliance with control and accounting procedures and to modify the process as needed. It also includes internal review functions and systems for following-up on needed corrective actions.

Information and Communication: The process by which the organization communicates information to all who need it.

Performance Perspective is a periodic newsletter issued by the Office of City Auditor. The purpose of these reports is to highlight general management principles or to disclose successful, useful or problematic program management issues. Please send your comments, suggestions, questions, or concerns regarding these reports to Nora J.E. Masters, City Auditor, MS 01-11-01, telephone 233-0088. Also, please call if you would like more information on how our office can assist you in strengthening your management controls.
